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# Message Text

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S/S: MR. ORTIZ
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FM SECSTATE WASHDC
TO AMCONSUL JERUSALEM NIACT IMMEDIATE
INFO USDEL SECRETARY IMMEDIATE

C O N F I D E N T I A L STATE 202992 TOSEC 100177

NODIS

E.O. 11652: GDS
TAGS:PROR ENG, UNGA
SUBJECT: SECRETARY'S UNGA SPEECH: ANSWERS TO SECRETARY'S QUERIES

RE: A. JERUSALEM 01371 OF 25 AUGUST
B. SECTO 85 C. SECTO 111
FOR S/S - PASS TO LORD FROM S/P-LEWIS AND EB ENDERS

AS YOU REQUESTED WE HAVE PUT TOGETHER ANSWERS TO THE SECRETARY'S QUESTIONS CONCERNING THE VARIOUS SECTIONS OF THE SPEECH.

1. ECONOMIC SECURITY.

-- THE NEW DEVELOPMENT FACILITY OF THE INTERNATIONAL MONETARY FUND WOULD PROVIDE FOR A TOTAL ACCESS FOR ANY ONE COUNTRY UP TO ONE HUNDRED PERCENT OF ITS INTERNATIONAL MONETARY FUND QUOTA. ACCESS IN ANY ONE YEAR WOULD BE LIMITED TO SEVENTY-FIVE PERCENT OF QUOTA. THIS WOULD BE
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DRAWN IN THREE TRANCHES OF TWENTY-FIVE PERCENT EACH. THE FIRST TRANCHE WOULD BE VIRTUALLY AUTOMATIC, THE SECOND WOULD BE FOR COUNTRIES WITH SEVERE EXPORT SHORTFALLS, AND THE THIRD TRANCHE WOULD INVOLVE A COMMODITY EARNINGS

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SHORTFALL TRIGGER. THE THIRD TRANCHE WOULD COME INTO PLAY WHEN EARNINGS FROM A COMMODITY BASKET FELL SUBSTANTIALLY BELOW TREND.

-- QUOTAS IN THE INTERNATIONAL MONETARY FUND ARE RELATED TO A COUNTRY'S TOTAL TRADE, TOTAL GNP, AND TOTAL RESERVE HOLDINGS AMONG OTHER THINGS. THEY ARE, HOWEVER, REVISED INFREQUENTLY. IF WE ARE ABLE TO REACH A MONETARY ACCORD WITH THE FRENCH AS WELL AS OTHERS DURING THE SEPTEMBER MEETING OF THE INTERNATIONAL MONETARY FUND OR IN THE JANUARY MEETING OF THE INTERIM COMMITTEE OF THE FUND, THEN QUOTAS WILL INCREASE FOR ALL COUNTRIES ON THE AVERAGE OF ONE-THIRD. THIS WOULD AUTOMATICALLY RESULT IN GREATER DRAWINGS UNDER THE EARNINGS STABILIZATION FACILITY. SINCE QUOTAS ARE RELATED TO SIZE OF TRADE AND GNP, COUNTRIES LIKE INDIA HAVE A FAIRLY LARGE QUOTA. INDIA'S CURRENT QUOTA IS 940 MILLION SDR'S AND IS THE LARGEST OF ALL DEVELOPING COUNTRIES. AFTER THE QUOTA INCREASE, THE INDIAN QUOTA WILL BE SDR 1.14 BILLION. BRAZIL HAS A QUOTA OF 440 MILLION SDR'S AS DOES ARGENTINA. AN SDR IS WORTH ABOUT 1.2 DOLLARS. ALSO, UNDER THE FACILITY, POOR COUNTRIES LIKE BANGLADESH AND INDIA HAVE FAIRLY UNSTABLE EXPORT EARNINGS AND, THEREFORE, WOULD BE MAJOR BENEFICIARIES OF THE EARNINGS STABILIZATION FACILITY. CHAD'S QUOTA AFTER THE GENERAL INCREASE WILL BE $19 MILLION. THE SMALLER AMOUNT FOR CHAD IS MORE IN LINE WITH ITS GNP AND INTERNATIONAL TRADE. FOR EXAMPLE, CHAD'S QUOTA OF $19 MILLION IS EQUIVALENT TO HALF OF THE VALUE ($38 MILLION) OF TOTAL CHADIAN EXPORTS IN 1973 (LATEST YEAR IMF DATA AVAILABLE).

-- THE GRANT ELEMENT OF THE FACILITY WILL BE FINANCED PARTLY FROM GOLD SALES BY THE INTERNATIONAL MONETARY FUND. TREASURY WANTS TO USE OUR PROPOSED TRUST FUND FOR THE GRANTS. THE TRUST FUND WOULD MAKE REPAYMENT OF COMPENSATORY DRAWINGS FOR THE POOREST COUNTRIES IN CASES WHERE THEIR SITUATION MADE REPAYMENT DIFFICULT. THIS SUGGESTS
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THAT THE TRUST FUND AND THE EARNINGS STABILIZATION FACILITY WOULD WORK CLOSELY TOGETHER, BUT WOULD REMAIN SEPARATE FACILITIES OF THE INTERNATIONAL MONETARY FUND.

-- TREASURY WANTS TO PRESENT THESE DETAILS AND OTHERS THROUGH ITS EXECUTIVE DIRECTOR TO THE BOARD OF THE INTERNATIONAL MONETARY FUND SOME TIME AFTER THE SEPTEMBER FUND MEETING. THEREFORE, SIMON WILL NOT SPEAK ABOUT THE DETAILS OF THE EARNINGS STABILIZATION FACILITY IN HIS SPEECH TO THE FUND MEETING TO BE GIVEN ON SEPTEMBER 2.

-- THE OVERALL LIMITATION OF ONE HUNDRED PERCENT OF

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QUOTAS AND THE SEVENTY-FIVE PERCENT ANNUAL LIMITATION
WOULD ENABLE NEARLY ALL OF THE EARNINGS SHORTFALLS, WITH
A FEW EXCEPTIONS, TO BE COVERED. OUR DATA IS DIFFERENT
SOMEWHAT FROM THAT OF TREASURY WHO THINK THAT THE PER-
CENTAGE LIMITATION WILL BE BINDING FOR QUITE A NUMBER OF

COUNTRIES. THERE IS, HOWEVER, AN OVERALL LIMITATION FOR
THE FACILITY'S ON THE TOTAL OUTSTANDING FINANCE OF
TEN BILLION DOLLARS. MOREOVER, THE FUND WOULD HAVE TO
CERTIFY THAT ITS FINANCIAL POSITION WOULD NOT BE
IMPAIRED SHOULD ANNUAL DRAWINGS EXCEED $2.5 BILLION.

2. ECONOMIC GROWTH
-- WE ARE NEGOTIATING WITH TREASURY, BUT WE ARGUE
THAT THE INITIAL FIRST YEAR CAPITAL FOR OUR INVESTMENT
TRUST PROPOSAL SHOULD BE AT LEAST $1 BILLION. THIS IS
FAIRLY SUBSTANTIAL CONSIDERING THAT WE WOULD HOPE THAT
IT WOULD HAVE SUBSTANTIAL LEVERAGE BY ATTRACTING PRIVATE
CAPITAL AND OPEC COUNTRY PARTICIPATION.

-- THE INVESTMENT TRUST PROPOSAL DOES NOT PROVIDE
DIRECT ACCESS FOR GOVERNMENTS OF DEVELOPING COUNTRIES TO
PRIVATE CAPITAL MARKETS. WE HAD MODIFIED THE OUTGOING
DRAFT SIX OF THE SPEECH TO REFLECT THIS FACT. YOUR
INCOMING REINSERTED THE NOTION IN PARAGRAPH 10 (SEE
JERUSALEM 01371 OF 25 AUGUST) THAT THE PROPOSAL WAS TO
ENHANCE DIRECT ACCESS. THE INVESTMENT TRUST PROPOSAL
REALLY PERFORMS THE FUNCTION OF MOBILIZING NEW CAPITAL
FOR PRIVATE ENTERPRISE IN DEVELOPING COUNTRIES AND IN
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PROVIDING A NEW FORM OF CAPITAL THAT DOES NOT REQUIRE
DEVELOPED COUNTRY GUARANTEES THROUGH COMMITMENTS OF
CALLABLE CAPITAL AS DO THE WORLD BANK AND THE REGIONAL
DEVELOPMENT BANKS.

-- THE DEVELOPMENT COMMITTEE OF THE WORLD BANK AND
THE INTERNATIONAL MONETARY FUND IS CONSIDERING A RANGE OF
PROPOSALS TO PROVIDE DIRECT ACCESS FOR COUNTRIES TO
DEVELOPED COUNTRIES' PRIVATE CAPITAL MARKETS. THE MOST
PROMISING POSSIBILITIES ALL REQUIRE SOME FORM OF GUARANTEE
EITHER EXPLICIT OR IMPLICIT IN THE FORM OF LINES OF CREDIT
OR CALLABLE CAPITAL SUBSCRIPTIONS. TREASURY RESISTS THE
USE OF GUARANTEES IN ANY FORM ON BOTH IDEOLOGICAL AND
POLITICAL GROUNDS. IDEOLOGICALLY, THEY FEEL THAT THE
US GOVERNMENT HAS OVEREXTENDED ITS GOOD FAITH AND CREDIT.
POLITICALLY THEY WORRY ABOUT UNDERCUTTING THE DECISION NOT
TO PROVIDE GUARANTEES FOR NEW YORK CITY OR OTHER AILING
AMERICAN CITIES. WE FEEL THAT SOME REFERENCE TO THE
DEVELOPMENT COMMITTEES WORK IS REQUIRED TO KEEP MOMENTUM
GOING IN THE HOPE THAT WHEN THE NEW YORK CRISIS BLOWS OVER

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WE WILL BE ABLE TO SELL SCHEMES THAT PROVIDE FOR MORE
DIRECT ACCESS TO CAPITAL MARKETS.

-- THE NETWORK OF INTERNATIONAL AGRICULTURAL RESEARCH
INSTITUTIONS THAT THE US SUPPORTS IN BOTH A FORM OF
TECHNOLOGY TRANSFER AND A WAY OF DEVELOPING NEW TECHNOLOGY
FOR DEVELOPING COUNTRIES. THE TWO REALLY GO HAND-IN-HAND
SINCE THE LINE IS DIFFICULT TO DRAW BETWEEN TECHNOLOGY
THAT IS TRANSFERRED AND ADAPTED FOR LOCAL USE AND TOTALLY
NEW TECHNOLOGY. THIS SAME PRINCIPLE APPLIES TO
INDUSTRIAL AND ENERGY TECHNOLOGY.

--THE TOTAL SUPPORT FOR THE CONSULTATIVE GROUP FOR INTER-
NATIONAL AGRICULTURAL RESEARCH IS NOW APPROXIMATELY FORTY
TO FIFTY MILLION DOLLARS OF WHICH WE THINK THE US PROVIDES
ONE QUARTER. WE DO NOT THINK THIS AMOUNT IS SIGNIFICANT,
NOR DO WE THINK THAT THE TEN MILLION DOLLAR REQUIREMENT
FOR A CONSULTATIVE GROUP ON NON-EDIBLE AGRICULTURE AND
FORESTRY PRODUCTS IS SIGNIFICANT.

--WE ARE TRYING TO DO A THOROUGH REVIEW OF THE TECHNOLOGY
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SECTION TO MAKE IT MORE FORTHCOMING AND TO INVOLVE MORE
DETAILED EXPLANATION OF THE SIGNIFICANCE OF OUR INITIA-
TIVES. SOME OF THE MATERIAL ON INDUSTRIAL TECHNOLOGY WAS
DROPPED INADVERTENTLY. IT WILL BE REINSERTED IN A BEEFED-
UP FASHION. S/P IS WORKING WITH OES AND AID TO REDO THIS
SECTION.

--IN THE INCOMING (JERUSALEM 01371 OF 25 AUGUST) YOU DROP-
PED THE REFERENCE TO TAX TREATIES AND TRANSFER PRICING. WE
FEEL IT IS VERY IMPORTANT TO INCLUDE THIS AND HAVE NEGOTI-
ATED WITH SCHWEBEL ON SOME WORDING. WAS THIS DROPPED IN-
ADVERTENTLY?

3. TRADE AND DEVELOPMENT.

-- THERE IS ONLY ONE QUESTION HERE REFERRING TO THE SPEC-
IAL TREATMENT ON NON-TARIFF BARRIERS. AN EXAMPLE WOULD BE
TO NEGOTIATE RULES CONCERNING THE AMOUNT OF PREFERENCES
THAT GOVERNMENTS COULD GIVE TO DOMESTIC SUPPLIERS FOR
GOVERNMENT PROCUREMENT CONTRACTS. DEVELOPED COUNTRIES
MIGHT AGREE TO GIVE NO MORE THAN TEN PERCENT PREFERENCE
FOR DOMESTIC SUPPLIERS. DEVELOPING COUNTRIES, HOWEVER,
MIGHT BE ALLOWED TO GIVE UP TO TWENTY PERCENT PREFERENCE.
THIS IS PURELY AN EXAMPLE OF WHAT MIGHT BE NEGOTIATED. WE
DON'T WANT TO GO INTO THIS KIND OF DETAIL IN THE SPEECH.

4. COMMODITIES.

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--THIS SECTION IS BEING THOROUGHLY REDRAFTED. WE HAVE A BIT OF A PROBLEM HERE HOWEVER. IF WE COME OUT STRONGLY IN FAVOR OF THE BUFFER-STOCK APPROACH TO COMMODITIES, WE MAY HAVE DIFFICULTY GETTING THE OTHER AGENCIES TO CLEAR THE SPEECH SINCE THEY WILL ASSUME THAT WE ARE PROPOSING MASSIVE INVESTMENTS IN BUFFER-STOCKS. WE ARE STILL TRYING TO GET A RESPONSE FROM MACOVY TO OUR DRAFT.

--THE BACKGROUND TO THE THIRTY MILLION TON FIGURE FOR WHEAT IS THAT WE HAVE AGREEMENT ON A WHEAT RESERVE, NO AGREEMENT ON A COARSE GRAIN RESERVE. LACK OF AGREEMENT RE-FLECTS ANALYTIC (I.E. WE MAY WEAKEN RATHER THAN STRENGTHEN OUR APPROACH TO EUROPEAN AND JAPANESE BY INSISTING ON
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GRAIN INCLUSION) RATHER THAN BUREAUCRATIC. ONE WAY AROUND PROBLEM OF EARLIER REFERENCE OF "UP TO 60 MILLION TONS" WOULD BE TO PROPOSE "RESERVES OF FOOD GRAINS THAT WOULD COVER SHORTFALLS IN 19 OUT OF 20 YEARS," BUT ONLY INDICATE A WILLINGNESS TO JOIN OTHERS IN A MATCHING AGREEMENT ON THE LESS URGENT MATTER OF RESERVES OF FEED GRAINS, IN ORDER TO SUPPORT THE FOOD ARRANGEMENT. WE WILL SEND NEW LANGUAGE ON THIS LATER.

-- THE ASIAN DEVELOPMENT BANK WAS DROPPED AS A RESULT OF NEGOTIATIONS WITH TREASURY AND OMB. OMB INSISTS ON PUTTING IN THE MEMO TO THE PRESIDENT AS A BUDGETARY COST OF THE SPEECH. WE ARGUED THAT IT WILL OCCUR ANYWAY BUT THE FACT IS THAT IT CAN'T BE BUDGETED. INCLUSION IN THE MEMO COULD JEOPARDIZE PRESIDENTIAL AGREEMENT TO AN IFAD CONTRIBUTION. WE WILL TRY A STATEMENT LIKE THAT ON IDA TO WHICH OMB DOESN'T OBJECT.

5. THE POOREST.

-- THIS SECTION HAS BEEN THE FIRST TO BE REDRAFTED. YOU SHOULD BE RECEIVING IT SHORTLY. THE FIRST PART TALKS ABOUT ECONOMIC SECURITY AND THE SECOND ABOUT CAPITAL FOR THE LESSER DEVELOPED COUNTRIES. WE HAVE CHANGED THE EMPHASIS ON THE LATTER PART TO REFLECT THE NEED FOR CONCES-SIONAL FINANCE RATHER THAN ACCESS TO CAPITAL MARKETS. THE BILATERAL AID PARAGRAPH HAS BEEN SWITCHED FROM THE BEGIN-NING OF THIS SECTIN TO THE PART OF THE SECTION REFERRING TO CONCESSIONAL FINANCE. INGERSOLL

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